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17 March 1960

# CURRENT INTELLIGENCE WEEKLY SUMMARY



CENTRAL INTELLIGENCE AGENCY  
OFFICE OF CURRENT INTELLIGENCE

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**SECRET****CURRENT INTELLIGENCE WEEKLY SUMMARY****17 March 1960****PART I****OF IMMEDIATE INTEREST****EAST-WEST RELATIONS**

Moscow's effort to maintain a conciliatory attitude prior to the summit was evident in its handling of the issue of passes for the Allied military liaison missions accredited to Soviet forces in East Germany. The announcement on 14 March, which rescinded the passes containing references to registration with the "German Democratic Republic," appears designed to portray the move as a pre-summit concession, in order not to "worsen the atmosphere between the great powers."

Moscow probably considered that the highly publicized dispute had become counterproductive, particularly in the light of Khrushchev's public statement of 5 March calling on all states to refrain from any action which could endanger the favorable pre-summit atmosphere. The Soviet leadership probably concluded that the American announcement that there would be no high-altitude flights to Berlin at this time and the Western statement on 12 March recalling Khrushchev's statement placed the USSR in an increasingly unfavorable position on this issue.

Privately, Moscow has attempted to gain some advantage from the dispute by linking the duration of the validity of the original passes to the over-all solution of the questions at the summit. General Vorontsov informed the Western military officials of this on 14 March. Moscow apparently intends to retain this issue as an element of pressure on the West.

Soviet efforts to appear conciliatory were also apparent in the prompt rescheduling of the Khrushchev visit to France in order to forestall speculation of a possible "diplomatic illness." Khrushchev's illness appears to be genuine. Foreign Minister Gromyko informed a Western ambassador that the Soviet leader was indisposed, and a Soviet doctor told another member of the diplomatic corps that Khrushchev has had a severe case of the grippe.

French Foreign Minister Couve de Murville feels that Germany and Berlin will be the main items in Khrushchev's talks with De Gaulle. He also believes that the Algerian question will be raised by Khrushchev and not the French, but that this will lead to a general discussion of Africa--particularly Guinea. Disarmament will also be on the agenda, according to the foreign minister.

Soviet bloc officials are also continuing their efforts privately to encourage Western apprehension over some definite Soviet action on a separate peace treaty after the summit conference. An East German official spelled out the detailed "consequences of such action," listing specifically road tolls and rail transit fees among the measures that East Germany would undertake to isolate West Berlin.

**Disarmament Conference**

In his opening statement on 15 March, Soviet delegate

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Zorin portrayed the Soviet plan as "a radical solution" which has gained world-wide support and a unanimous UN endorsement. While indicating that the Soviet Government would consider amendments to Khrushchev's plan as well as other proposals, Zorin's strong criticism of the Western plan suggests that Moscow will reject it as the basis for negotiation on the grounds that it is an inadequate response to the conference's objective of negotiating a treaty for "general and complete disarmament."

Zorin's call for "an understanding, first of all, on the basic provisions of a general treaty" indicates that his immediate objective is to establish the Soviet proposal as the first agenda item by obtaining Western agreement "in principle" to general and complete disarmament as the main task of the conference. In his greeting to the conference, Khrushchev emphasized this approach by stressing the "earliest drafting" of practical methods for "total and universal disarmament" as the purpose for convening the conference.

**Nuclear Test Talks**

The Soviet delegate to the nuclear test talks last week hinted broadly that the USSR would accept the American proposal of 11 February for a limited treaty if the United States would agree to a moratorium on small underground tests below the threshold set by the American plan. Such an arrangement in effect would result in the comprehensive treaty banning all tests which Moscow has long advocated.

Soviet delegate Tsarapkin sought to increase pressure on

the United States to accept such a moratorium by attempting to demonstrate that a split exists between the two Western powers on this issue. He observed that an agreement could be quickly reached if the United States would make it clear that the threshold proposal is designed only to bring about a gradual extension of control measures to cover all testing. Tsarapkin pressed the Western delegates either to confirm this interpretation of the American plan or to acknowledge that the plan was intended to legalize small underground tests.

This question drew a statement from the British delegate reserving his position on what Britain's attitude would be toward tests below the threshold. In contrast, the American delegate declared there would be no legal prohibition on such tests. A British delegation spokesman subsequently interpreted Tsarapkin's statement as a hint that Moscow would accept a treaty based on the American threshold proposal if this were combined with a moratorium on tests below the threshold.

The Soviet delegation presumably will be encouraged to continue these tactics by the British delegate's statement in the 14 March meeting which described Tsarapkin's statement as "important, significant, and potentially encouraging."

The Soviet leaders have been holding a proposal for a moratorium on small underground explosions in reserve for some time.

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[Redacted]

Moscow may feel that, in view of a possible Easter recess, the time has come for some move to isolate the main issues at the conference and to set the stage for a com-

promise proposal which Khrushchev can press at the summit. Any Soviet proposal would probably tie acceptance of the American plan, accompanied by a moratorium on the tests below the threshold, to Western agreement on a small fixed quota of on-site inspections.

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**MIDDLE EAST HIGHLIGHTS**Iraq

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pendulum continues to swing against the Iraqi Communists, albeit slowly. There are indications that the Communist-front Republican party's application for legalization is running into difficulties with the anti-Communist Interior Ministry. No word has been forthcoming about the results of the orthodox Communists' appeal to Qasim for reconsideration of their application for status. Qasim may side-step this thorny problem by referring their case to the Court of Cassation, Iraq's highest appeal court, which is unlikely to issue a verdict against Qasim's wishes.

A new sign that the Qasim government is seeking a more truly neutral policy between the Soviet bloc and the West is a request sent to the American Embassy seeking assistance to fill 230 teaching positions at Baghdad University, as an alternative to hiring more Soviet bloc personnel.

Jordan-UAR-Iraq

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With military tensions further relaxed between the UAR and Israel, attention in the area has been increasingly focused on the acrimonious inter-Arab quarrel over the Palestine issue. The UAR and Iraq have

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each made independent proposals for creation of a separate Palestinian State." Jordan has vigorously opposed these proposals because, by encouraging separatist tendencies, they tend to jeopardize Jordanian control of the Palestinian West Bank, which was annexed in 1950.

King Husayn, as a means of undercutting the persistent UAR and Iraqi propaganda, now has announced willingness to hold a West Bank plebiscite. He would offer Jordan's Palestinians the choice of a separate Palestine state, affiliation with another Arab state, or continued association with Jordan. According to his plan, a "large and representative" assembly of people from the West Bank is to be convened in Jerusalem. If this assembly elects to have a plebiscite, Husayn has said he would call on the Arab League, and possibly the UN, to conduct and supervise it.

eign invasion. In another remark calculated to curry Cuban favor, he announced that the UAR will vote for Cuba's nomination to a Security Council seat. Cairo has already concluded a sizable cotton-sugar barter deal with Havana.

The UAR Government has shown somewhat more restraint in other dealings with the Castro regime. Cairo also appears to be giving cautious treatment to Castro's plans for a highly publicized Havana conference of underdeveloped nations.

Sabri's tour, which will include 14 countries, was preceded by an intensive effort by Cairo to strengthen its diplomatic representation in Latin America. UAR missions have been established in nine countries, and eight more are under negotiation. Cairo hopes to gain Latin American sympathy for its neutralist policies and support in the various controversies in which it is involved in the United Nations.

Cairo's Al Akhbar, responding to a New York Times article expressing some concern over Sabri's trip, stated on 14 March that "there is nothing of an unfriendly nature directed against the United States or any other state in a rapprochement between the Arabs and Latin America." Most of the UAR's missions, however, have leaned rather heavily on an anti-imperialist line, which has a special anti-US connotation in Latin America.

**UAR - Latin America**

UAR Deputy Foreign Minister Dhu al-Fiqar Sabri began the first leg of his two-month good-will tour of Latin America with a stop in Havana last week. The Cuban visit ended on 15 March with a press conference in which Sabri is reported to have proclaimed that Cairo is prepared to "discuss" the possible dispatch of men and arms to Cuba in the event of a for-

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The official visit to Cairo of Panamanian Foreign Minister Miguel Moreno during his current ten-nation world tour and the recent appointment of a Panamanian minister to the UAR are further indications of increasingly close UAR-Panamanian ties.

The UAR has made less notable progress in courting other Latin American states, but there is no sign of a letup in its efforts. Large Arab minorities throughout the area are a special target of UAR propaganda, and the various missions continue to expand cultural activities aimed at these groups. Anti-Zionist propaganda is also a prominent weapon of the UAR diplomats. Sabri probably will also seek to encourage exchanges of high-level personages.

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**COMMUNIST ACTIVITY IN CUBA**

Cuba is becoming the center of Communist activity in Latin America. A hemisphere peace conference under the auspices of the Communist-front World Peace Council is being planned for Havana in May or June, and the Communist hand is also evident in the "Friends of Cuba" societies being formed in most Latin American countries. Communist bloc propaganda continues its active support of Castro, and Cuba's economic, labor, and cultural contacts with the bloc are increasing.

Representatives of seven Latin American affiliates of the Communist-front World Peace Council (WPC) met with Soviet and French WPC members in Havana from 9 to 12 March to plan a hemispheric peace conference there in May or June. Such a conference would implement plans made by Latin American Communists meeting in Moscow at the time of the Soviet 21st party congress in early 1959 to strengthen the "peace movement" and to promote a "peoples' congress."

Communist leaders from several other Latin American

countries attended the plenary session of the Cuban Communist party (PSP) in early March. During the meeting, the PSP announced its support for the "week of solidarity with the struggles of the Latin American peoples" which the Communist-infiltrated Cuban Labor Confederation has called for later this month.

Cultural and propaganda activities by the "Friends of Cuba" societies being formed in most Latin American countries are promoted through the Cuban Casa de las Americas, run by the pro-Communist wife of the minister of education. Castro's subsidized press agency, Prensa Latina, cooperates in these efforts. The societies attract leftist, non-Communist groups who still see Castro as a hopeful example, but they are in effect Communist fronts.

The Sino-Soviet bloc continues its active support of Castro, particularly in the propaganda and economic fields. The New China News Agency, TASS, and other bloc news sources promptly report Castro's anti-US charges, reflecting the close

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25X1 ties established with Prensa Latina during February. [redacted]

[redacted] East Germany has signed a trade agreement with the Cuban National Bank, and the Czechs are already active commercially in Cuba.

The charges made by Cuban workers on 14 March of abuse

and bad working conditions at the US naval base at Guantanamo Bay followed a marked increase in reports that Castro plans a formal demand for evacuation of the base. The training and arming of student, worker, and peasant militia units and the organization of youth brigades seem to have been speeded up, and the US Embassy reports that the Castro government has received at least 20 shipments of arms and ammunition. [redacted]

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**PART II****NOTES AND COMMENTS****RIISING TENSIONS IN ARGENTINA**

New terrorist bombings have contributed to the atmosphere of unrest in Argentina prior to the 27 March elections for some municipal offices and one half of the Chamber of Deputies; these elections will be the first national vote on President Frondizi's policies. As on a number of other occasions since he took office in May 1958, Frondizi is faced with reports of plotting by several groups, vitriolic criticism by opposition political parties, and strong economic complaints by both business and labor.

Emergency security measures subjecting saboteurs and terrorists to military tribunals were instituted on 14 March, immediately after a bomb destroyed an army intelligence officer's home, killing one child. Within the week, terrorists also killed a family of three living near an army arsenal which was bombed; they also caused an eight-hour fire in the state gas company and damaged a major rail line.

The President ordered the armed forces on alert on 15 March and warned that military courts could impose a death sentence--a drastic step in the light of Argentina's strong opposition to capital punishment. An executive decree effective 16 March declaring a "situation of serious emergency" formalized these steps, which were to be limited to terrorism and to exclude normal political and labor activities.

The decree and extensive raids on Peronista strongholds

also probably reflect extreme caution in view of reports of Peronista and Communist revolutionary plotting, including possible attacks by Peronista "guerrillas" centered in northwestern Argentina. There are only vague reports on the strength of the "guerrillas," who are said to be mainly youths belonging to the "Peronista National Liberating Movement," but the recent rise in the theft of arms may have increased concern over this group.

Peronista leaders have continued to exploit labor for political purposes and have stressed that the "Justicialista party" is synonymous with the outlawed Peronista party and "recognizes the same chief." This defiance has resulted in constant military pressure on Frondizi to curtail Peronista activities, thus prejudicing efforts to attract the Peronistas into his Intransigent Radical party.

The Peronistas and Communists, reacting to Frondizi's call for proscription of their candidates, have been campaigning for a heavy protest blank vote to exceed the vote received by Frondizi's party. Peronista strength has declined to about 25 to 30 percent of the electorate since Peron was ousted. The blank vote, however, is not entirely Peronista, since a few other parties have advocated this means of protest in some of the 1959 and 1960 provincial elections.

Frondizi sees the blank vote as reducing competition for the 32 seats his party must win

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to retain control of the Chamber --newly increased to a total of 192 seats. At stake are 97 seats. Frondizi admits a loss of popularity because of discontent, particularly over austerity measures under the

US-backed stabilization program. While the impact of the program has been more severe than Frondizi anticipated, he hopes its benefits will become evident before the Senate elections next year. [redacted] 25X1

**ALGERIAN CEASE-FIRE PROSPECTS**

The Algerian rebel attitude toward a cease-fire appears to have hardened in the wake of De Gaulle's implicit rejection of rebel peace proposals calling for joint French-rebel administration of an Algerian referendum. The rebels will probably now step up their efforts to "internationalize" the war and to improve their diplomatic contacts, including those with Communist China and the USSR. Despite their recent rebuff, the Algerians probably plan to make new approaches to De Gaulle whenever they feel conditions are more favorable, perhaps after weighing the results of the summit conference.

Premier Ferhat Abbas, in a statement issued on 14 March, stated that De Gaulle's recent pronouncements had "closed the door to negotiations and peace in Algeria," and reiterated rebel demands that guarantees of the fair application of self-determination must precede any cease-fire. De Gaulle, in statements to the French Army between 3 and 5 March, called for continued pacification and endorsed Algeria's continued association with France. Charging that De Gaulle "fears the popular verdict" in Algeria, Abbas pledged a continuation of the war "until the attainment of our independence."

The rebels probably view De Gaulle's recent public state-

ments as his reply to their overtures concerning a cease-fire made in late February. The rebels are believed to have proposed [redacted] 25X1

[redacted] that there be an immediate cease-fire based on a withdrawal of rebel forces to areas near the Tunisian and Moroccan borders. Within a year of the cease-fire, a referendum to determine Algeria's future relationship with France would be held, supervised by the French, the Algerians, and a third party to be designated. 25X1

The rebels probably view this offer--which reportedly was acceptable to rebel military commanders as well as political leaders--as the most reasonable which they could reconcile with their own interests. In view of De Gaulle's continued refusal to discuss such terms, however, the rebels probably will renew their efforts to "internationalize" the war through anti-French resolutions in the United Nations and demonstrations of Arab unity such as the proposed Arab Legion of "volunteers" for the Algerian fighting. Rebel spokesmen have also stated their intention of broadening diplomatic contacts and have indicated that the rebels were considering the appointment of an ambassador to Communist China, with which they desire the "closest possible relations."

Peiping probably would welcome rebel diplomatic

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representatives. The Chinese, who have taken every opportunity to encourage continued Algerian resistance, would be likely to try to use a permanent Algerian representative to increase their influence with more extreme elements in the rebel movement and to exploit his presence in propaganda implying official Algerian

recognition of Peiping as a champion for nationalist movements.

Despite the tough tone of their recent statements, rebel leaders probably continue to believe that their best hope lies in a negotiated Algerian settlement. One rebel official "clarified" Abbas' 14 March statement by remarking that fundamental rebel policy had not changed.

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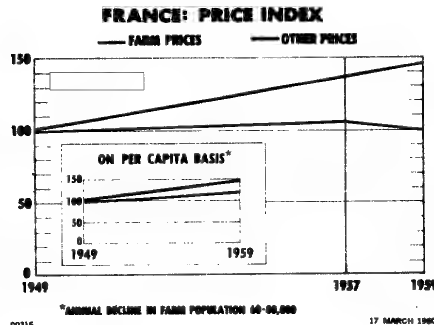
**DE GAULLE'S FARM PROBLEM**

In France, 300,000 people have demonstrated in recent months against the Debré government's refusal to tie the price of farm products to a general cost-of-living index. The government's stand has sparked a demand by a majority of the deputies in the National Assembly for a special session. President de Gaulle is opposed to this and may seek to delay convening parliament until its scheduled opening on 26 April, but his political opponents are trying to use the farm issue to embarrass the government on unrelated questions such as Algeria, the Khrushchev visit, and the role of parliament under the Fifth Republic.

The aggressive National Federation of Farmers' Unions (FNSEA) has been increasingly effective in making French peasants aware of agricultural economics and in propagandizing farm woes. Agricultural interests had secured in 1957 a system of guaranteed minimum prices for farm products based on the price of goods used in agriculture, on the cost of living, and on general wage rates. De Gaulle abolished this in December 1958.

Since then industrial prices and urban prosperity have

increased, while farm prices have lagged behind and peasant indebtedness has been intensified by two bad crop years.



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Farmers reportedly have come to believe they are the victims of a deliberate policy to push financial stabilization, industrial expansion, and even African development, at their expense.

The government is preparing a bill which would increase assistance for agricultural modernization, education, marketing, and distribution, but would relate farm commodity prices to farm costs, not to general price levels. Premier

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Debré has expressly ruled out any "general and automatic mechanism" as inflationary, and De Gaulle told the farmers in February they must modernize their production and cut costs.

The government's program is unsatisfactory to the FNSEA. The farm organizations also criticize the inadequacy of short-term credit facilities and the policy of importing goods to block price rises. Individual farm leaders, exasperated with Paris' delay in coming to grips with agricultural problems, have proposed a boycott of the purchase of farm machinery or even a general strike by the peasants. FNSEA,

however, has been able to channel farm discontent into a demand for a special session of parliament and has secured the signatures of the majority of the deputies.

If De Gaulle makes the farm issue a test of political loyalty, the outcome will be questionable, inasmuch as there is much sympathy for the farmers' demands--particularly among the Independents and Popular Republicans, who draw much of their support from rural areas. If, on the other hand, the government makes concessions on farm prices, this will stimulate new wage demands by already restless labor groups.

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**PRELIMINARY MOVES TOWARD URBAN COMMUNES IN CHINA**

When the Chinese Communist leaders decided in December 1958 to postpone large-scale formation of urban communes, they made it plain that such communes in "suitable forms" would eventually come and that the search for the "suitable forms" would continue. The search has intensified in recent weeks, and has concentrated on the promotion of collective working and living arrangements. City housewives have been encouraged to take jobs at neighboring workshops.

Although these workshops do not add greatly to total production, they do serve as a device to free women from household tasks which are being assumed by a growing number of collective welfare facilities--mess halls, tailor brigades, laundries, nurseries, and homes for the aged. The Chinese press claims that personnel in these establishments are already "performing the functions of mothers." Some 70 percent of the

residents of Chungking reportedly are taking their meals in mess halls. The regime wants to see more such facilities. It also urges the "rearrangement" of housing to permit those who work together to live and study together. Such arrangements, Peiping says, will promote a collective spirit and permit party officials to conduct political education "expeditiously." Workers at the Anshan steelworks and the Yangchuan coal-mining center have already been relocated, but Peiping, while approving their initiative, warns that relocation elsewhere should be "gradual."

State control over financial and commercial organs is being used to regulate the "economic life" of urban dwellers. In Chungking--a leader in the field--single distribution outlets have been formed on the basis of residential or factory areas, and these "manage" the residents' consumption of food, clothing, and other items.

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The changes now being made, although apparently widespread in China's urban areas, have not been publicly linked with the promised coming of urban communes. They do, however, appear well designed to fulfill many of the requirements set down in December 1958. The party central committee said that urban communes would become "unified organizers" of production, exchange, and the people's livelihood; that they would combine industry, agriculture, trade, education, and military affairs; and that they would integrate government, administration, and commune management.

The present efforts, which extend into the nearby country-

side, seem to be the first steps. The party journal Red Flag recently noted a gradual tendency for neighborhood offices, which formerly performed only administrative functions, to become "basic-level, politico-economic organizations" which unify production, exchange, and welfare.

Reluctance to employ the term "urban commune" may simply reflect a desire to avoid the alarm created in the cities during the 1958 attempt to set them up. Urban communes are almost certainly still in the cards for China's cities, however, and present efforts to popularize the collective life are clearly a step in this direction. (Prepared by ORR)

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## SINO-SOVIET TRADE RISE BOOSTS TOTAL CHINESE TRADE

Despite evidence of political friction, the USSR and Communist China are continuing to expand their economic ties. A recent announcement by Soviet Minister of Foreign Trade Patolichev indicates that Sino-Soviet trade in 1959 rose 35 percent, to more than \$2 billion--\$250,000,000 more than originally planned. About 50 percent of China's foreign trade is now with the Soviet Union, and Peiping has replaced East Germany as the largest trading partner of the USSR. Chinese commercial activities in the free world declined in 1959, but as a result of increased exchanges with the bloc, total Chinese trade probably rose from \$3.8 billion to about \$4 billion.

Disruption of the Chinese economy during the "leap for-

ward" campaign, and the political setbacks of the past year contributed to the greatly reduced scale of Chinese economic activity in Asia. While the decline is not uniform, major reductions in Chinese trade with Japan, Hong Kong, Malaya, and Singapore have reduced China's over-all trade with Asian countries well below the 1957 and 1958 levels. The economic implications of these setbacks are relatively unimportant to China's development, but Peiping's failure--or at best unwillingness--to follow up its promising commercial achievements in Asian markets has contributed to the decline in its influence in South and Southeast Asia.

In Western Europe, the Chinese have resumed placing large import contracts, after

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coasting during most of 1959 on the strength of the huge orders placed during the "leap forward." While trade with the area has not returned to the high levels of late 1958, Peiping diligently seeks to preserve its commercial reputation and to maintain contacts for future exploitation.

Chinese purchases of industrial raw materials and semi-finished goods from Western Europe--particularly steel and fertilizers--are neither regular nor dependable, but they do play an important role in supplementing shipment of machinery and equipment from the bloc. China still has a large import surplus with Western Europe, but the higher level of exports to that area last year, plus reduced purchases, helped lessen China's trade imbalance and eased the pressure on foreign exchange reserves.

The general increase in Chinese trade with the bloc

during 1959 apparently was more than sufficient to offset the decline in free-world trade, and the bloc's share of China's total trade rose above the 62 percent of 1958. In 1960 the USSR expects to supply more machinery and equipment, including complete plants, to China than it has before. In order to continue debt repayments, however, Peiping probably will maintain an export surplus in this trade.

As China's economy moves forward, the commodity composition of Sino-Soviet trade is undergoing a gradual change. The main items exchanged remain chiefly Chinese agricultural products for Soviet capital equipment, but shipments of Chinese light industrial products, particularly textiles, are becoming increasingly important. Trade negotiations being carried on in Moscow probably will result in a long-term trade agreement similar to those Peiping has signed with all the East European satellites.

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**SOVIET PRIVATE HOUSING**

Private housing, planned to account for 41 percent of this year's urban housing construction in the USSR, was criticized by Khrushchev on two recent occasions. In February he told an American official that the construction of private, single-family dwellings was "wasteful of materials, expensive to maintain...and irrational." He indicated that if persons having enough funds wished to build such homes, it would be tolerated for the time

being, but that in the long run all such homes would be razed and replaced with apartment buildings.

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Private housing has been a frequent cause of conflict of

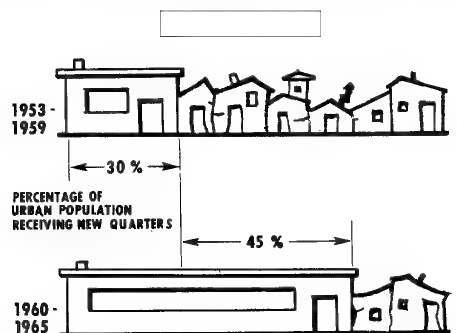
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opinion in the USSR. It is difficult to plan for and control, it contradicts Soviet ideas for city planning, and it requires higher expenditures

ADDITIONS TO URBAN HOUSING IN THE USSR 1953-1965  
(BASED ON 1959 URBAN POPULATION)



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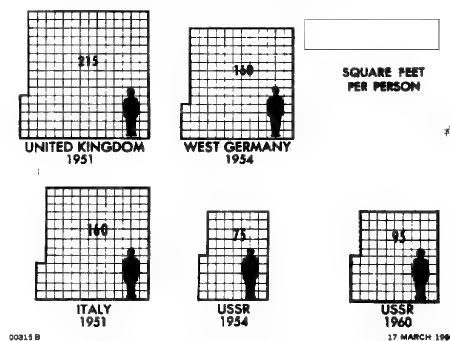
over the long term for utilities, roads, and communal facilities. Furthermore, private housing is considered "of poor psychology for socialism," according to a member of the recent delegation of Soviet builders to the United States. Western observers have noted the difference between the energetic work of private builders and the lackadaisical approach of some workers on state housing.

On the other hand, the pressure of the severe housing shortage in recent years has required the regime to depend more and more on construction by private individuals, usually with government assistance. Between 1956 and 1960, the volume of such construction has increased more than threefold, and it is counted on for about a third of the total to be built in 1961-65. Recently official efforts were made to reassure

homeowners that the results of the housing census carried out this January would not be used for confiscatory action. In view of the importance of private housing, it seems unlikely that Khrushchev could safely carry out his implied threat to curtail its construction.

The yearly pace of total construction--state and private--during the remaining years of the Seven-Year Plan (1959-65) is scheduled to remain almost constant through 1962 and then decline slightly from the volume of 101,000,000 square meters planned in 1960. It is thus possible that the USSR could exceed the present plan for both state and private housing by a comfortable margin. Resources used in private construction differ from those used in state construction and could not be readily transferred to the state sector. Hence state housing could not be increased

COMPARISON OF SOVIET AND WESTERN HOUSING AVAILABILITY



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in an amount sufficient to make up for any substantial reduction in the planned volume of private construction.

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**BLOC INTERNATIONAL CIVIL AIR DEVELOPMENTS**

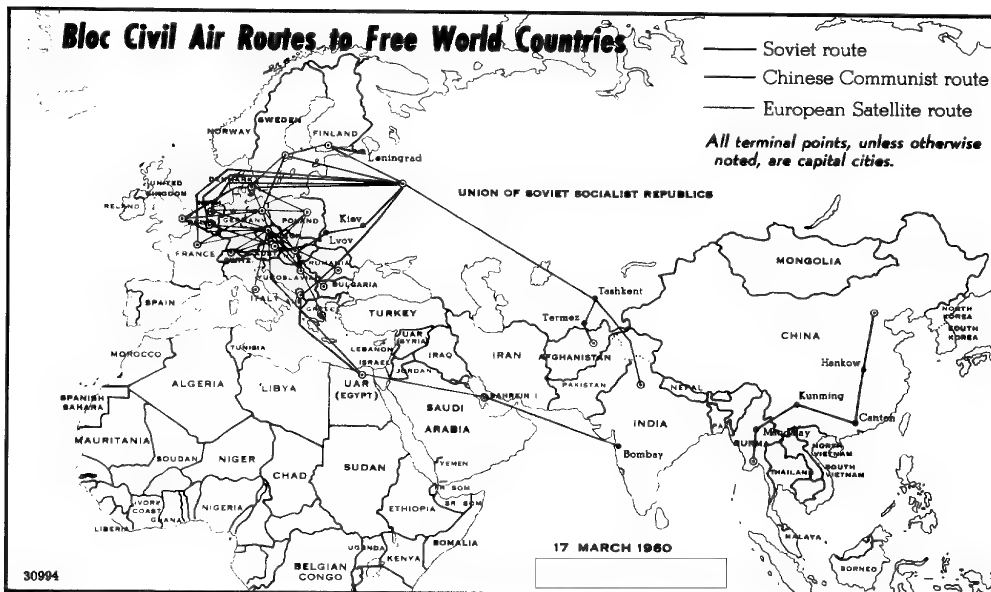
Since 1955, the USSR and several of the satellites have concluded civil air transport agreements with most of the countries of Western Europe. The bloc now is shifting emphasis to Asia and Africa. Anticipating increased flight capabilities through the use of more modern equipment, the bloc countries are negotiating new air agreements with Iraq, Lebanon, and other Middle Eastern countries.

Aeroflot, the Soviet civil airline, while primarily concerned with domestic expansion, is preparing for future major additions and extensions to its international network. Possible Soviet agreements with the United States and Japan are frequently mentioned in the Soviet press, but such agreements appear to be slated for later, inasmuch as Moscow itself is stalling the proceedings with the United States and is insist-

ing on conditions unacceptable to Japan.

Moscow frequently encourages the satellites--particularly Czechoslovakia--to take the lead in establishing new routes. The Czechoslovak airline has received some new Soviet long-range turboprop equipment and has announced it would like to use IL-18s on the new Prague-Rome route. The new equipment already is being used on Czech nonscheduled flights to Guinea, with which Prague apparently plans to conclude a bilateral agreement, perhaps hoping later to extend this route to Latin America.

The USSR now has flights to India, and the Czechs hope to extend their Bombay flight to Peiping, via Rangoon and Djakarta. Czechoslovakia already flies to the UAR and, together with the Soviet Union, is negotiating with Lebanon for an air agreement;



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the Czechs also will soon conclude an agreement with Iraqi airline officials now in Prague.

Although the other satellites have been less active in the bloc's international civil air expansion program, their roles are increasing, and their capabilities will be enhanced by the new equipment now on order from the Soviet Union. Hungary is the only bloc country with landing rights in West Germany. Budapest recently concluded a bilateral agreement with Baghdad, and plans to implement its agreement with the UAR when it receives Soviet IL-18s.

East Germany, which has had little success in establishing air routes outside the bloc, has nevertheless managed

**BLOC CIVIL AIR TRANSPORT AGREEMENTS WITH FREE WORLD COUNTRIES**

	USSR	CZECHO	POLAND	HUNGARY	BULGARIA	ROMANIA	COMMUNIST CHINA
YUGOSLAVIA	X 1955	X 1956	X 1955	X 1956	X 1955	X 1956	
FINLAND	X 55	X 49					
AUSTRIA	X 55	X 52 *	X 56	X 58	X 58	X 58	
DENMARK	X 56	X 47	X 57	X 58	X 58	X 58	
NORWAY	X 56	X 48			X 58	X 58	
SWEDEN	X 56	X 57	X 56	X 57	X 57	X 57	
BRITAIN	X 57	X 57	X 57				
INDIA	X 57	X 60		P			N
AFGHANISTAN	X 56						
BELGIUM	X 58	X 56	X 56	X 57	X 57	X 56	
NETHERLANDS	X 58	X 47	X 56	X 57	X 58	X 57	
FRANCE	X 58	X 54	X 56				
SWITZERLAND	P	X 47	X 59	X 59			
ITALY	P	N					
GREECE	P		X 56 *			N	
U.A.R.	X 58	X 57		X 58	X 59	X 58	
IRAQ		X 60		X 60			
LIBYA	P						
LEBANON	N	N					
IRAN	P						
JAPAN	P						
U.S.A.	P						
MEXICO	P						X 55
BURMA		P					
INDONESIA		N					
GUINEA							X 59
CEYLON							

X Agreement exists (with date)  
P Agreement has been proposed  
N Agreement is under negotiation

\* Temporary rights, not a permanent bilateral agreement.

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to gain some concessions. The government airline, Interflug, has been participating in special flights from the Scandinavian countries and Austria during the Leipzig fairs, and it has acquired landing privileges at Athens for the tourist flights it makes to the Middle East. (Prepared by ORR)

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**COMMUNIST TERRORISM IN SOUTH VIETNAM**

Communist terrorism in South Vietnam, a chronic problem for the Diem government, has assumed serious proportions in recent months in the southern and southwestern provinces. The growing aggressiveness of well-armed Communist guerrilla bands is pointed up by recent depredations in the Saigon area, including the pillaging of a hospital and the overrunning of a Vietnamese

militia post. President Diem is convinced that the Communists, bolstered by additional personnel infiltrated from North Vietnam, have begun a phase of all-out guerrilla war which will last a long time.

In contrast to the former pattern of small-scale terrorist action against remote villages and other undefended targets, Communist guerrillas since last

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fall have been operating in bands of up to several hundred strong and have concentrated attacks on Vietnamese security patrols and installations.

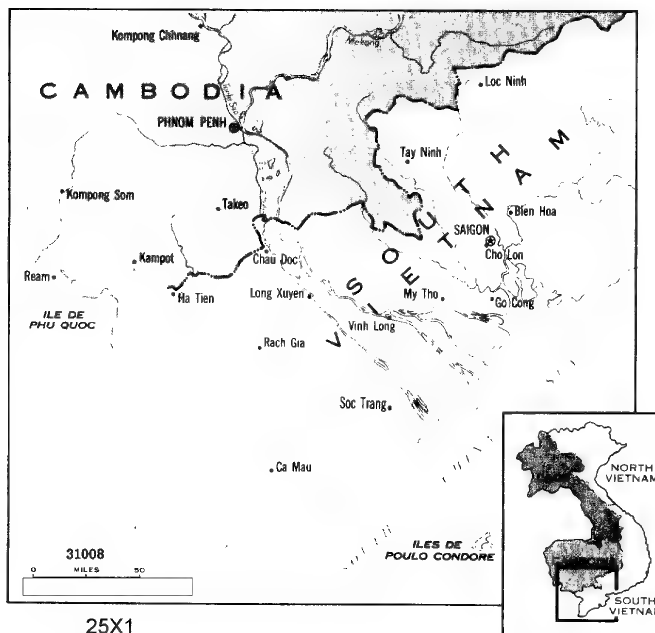
The Diem regime retains firm control in the larger towns, however.

The tacit cooperation of the local populace has been a factor in recent Communist guerrilla successes. A persistent Communist campaign of subversion and intimidation over the past several years, including the assassination of several hundred local officials, has undermined the confidence of the peasants in the government's ability to protect them. Present Communist tactics, particularly the attacks on security forces, appear aimed at accelerating this trend and lowering the military's morale.

In addition, the arbitrary police-state measures of many provincial authorities have strained the loyalty of the people. A case in point is the forced-draft approach by overzealous provincial chiefs in implementing the government's new program in the southern provinces of regrouping farmers from outlying areas in centralized settlements, known as "agro-villes," for greater protection against terrorists. This has engendered so much popular resentment that the government has ordered a slow-down in the program.

Many highly placed officials in Saigon acknowledge that political reforms are a prerequisite for real improvement in internal security. Vice President Tho, for example, years ago forecast the steady growth of Communist influence among the populace unless the government took steps to broaden its popular support. Tho reportedly now fears that the Communists will have completed their subversive work "at the roots" within the next six months unless effective countermeasures are immediately taken.

President Diem, however, apparently is still thinking more in terms of military consolidation to meet the present emergency. He is urging a 20,000-man increase in the present support level of 150,000 for the armed forces, the creation of an elite commando force of 10,000 to 20,000 men, and additional military equipment particularly suited for waging counter-guerrilla operations.

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Unless security in the affected provinces is stabilized, the continued erosion of the people's confidence in the government will pave the way for

the kind of shadow control exercised by the Communists over broad areas of the countryside under French rule between 1946 and 1954.

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**AFRICAN STATES INCREASE PRESSURE ON SOUTH AFRICA**

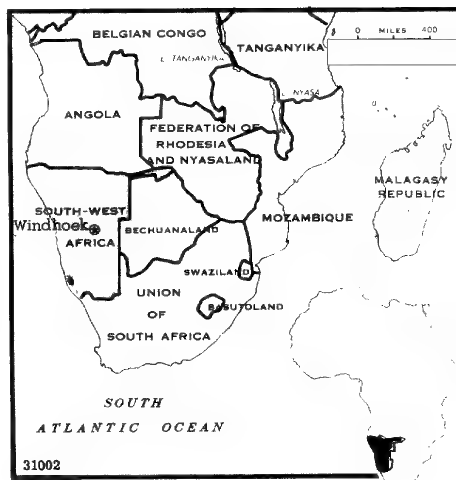
South Africa may face a campaign by other African states to bring the question of its administration of South-West Africa before the International Court of Justice (ICJ). Since the native riots in Windhoek last December, many independent African states have shown increasing interest in South-West Africa, which was made a mandate of the Union of South Africa by the League of Nations in 1920.

Liberia may bring a test case before the ICJ, charging that the introduction of apartheid policies into the territory violates the spirit of the mandate. Since South Africa previously had committed itself to accept ICJ jurisdiction, the Liberians could ask the court to require compliance with its decision. Continued South African intransigence could lead to an African appeal to the UN Security Council.

In 1950 the ICJ delivered an advisory opinion, which is not binding on South Africa, that the Union continues to have international obligations in the administration of the territory, and that South-West Africa's status cannot be changed without the concurrence of the UN General Assembly. South Africa maintains that the mandate lapsed with the demise of the League of Nations;

it refuses to permit UN supervision of its administration.

The 66,000 Europeans in South-West Africa are represented in the South African Parliament, and most of the territory's 473,000 non-Europeans are controlled according to



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South Africa's policies of racial separation. The stated aim of the Nationalist party, which controls the governments in both the Union and South-West Africa, is to achieve the territory's integration with South Africa.

An adverse court decision might cause South Africa to reduce the scope of its UN

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activities and to withdraw its commitment to accept the court's compulsory jurisdiction. However, South African Nationalists have shown no inclination to bow to external pressure in the implementation of their racial policies. The Nationalists' determination to implement their doctrines has recently been stiffened by British Prime Minister Macmillan's

criticism of apartheid, by the Union's growing isolation in the General Assembly, and by the highly publicized international consumer boycott of South African products. The South-West Africa issue will serve to keep the Union under growing international attack, particularly from the increasingly articulate states of Black Africa.

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**EUROPEAN LABOR UNREST**

The varied labor difficulties which have recently developed in five northern European countries have important political implications.

In Belgium and the Netherlands, strikes and threats of strikes continue to mount pressure on conservative coalitions susceptible to splitting on economic issues. Opposition to the accelerated program of closing coal mines in the Borinage area of Belgium has resulted in a strike of a thousand miners, supported by middle-class elements dependent on the coal industry. The Eyskens government is striving with some success to stave off a recurrence of the major stoppage and disturbances which occurred last year, but it appears ill equipped to placate the more general labor unrest.

In the Netherlands, the biggest strike since World War II--a walkout of construction workers--threatens the government's prestige, for it involves major aspects of the "free wage" policy on which Prime Minister De Quay has staked his reputation.

In Iceland the Communists, because of their control over the Federation of Labor (IFL) as well as a number of key locals, are in a strong position to obstruct implementation of the economic reform program recently enacted by the Conservative - Social Democratic

government. At a party congress opening on 18 March, the Communists are expected to reveal their strategy regarding the government's program. If sufficient rank-and-file support materializes, a general strike may be called; otherwise, they will probably focus for the present on strikes in selected industries.

In Finland, the Communists recently joined with dissident Social Democrats in a working coalition that puts them in position for an eventual takeover, or at least a disruption of the Finnish Federation of Labor.

In West Germany and West Berlin, the possibility of a paralyzing strike of public utility and transport workers apparently hinges on the outcome of talks which resumed on 15 March between the union and employers. Should negotiations break down--as they did earlier this year--a strike vote would follow. A protracted stoppage could have serious consequences in West Berlin, as the East Germans have announced they would halt all service on the elevated railway to West Berlin as a gesture of solidarity--as they did during a one-day strike of transport workers a year ago. Mayor Brandt hopes that in the event of a nationwide walkout, the West Berliners would be content with a symbolic 24-hour "demonstration."

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**PART III****PATTERNS AND PERSPECTIVES****SINO-SOVIET FOREIGN POLICY DIFFERENCES**

During a press conference at the National Press Club in Washington last September, Khrushchev was asked why he was going to Peiping after his visit to the United States. The Soviet premier, who had been relaxed and in full command of the situation up to that point, said without apparent consideration that this "was the most complicated question there can be!" Then, flustered, he addressed the assembled newsmen as "comrades." After a clumsy attempt to explain this error, he tried to joke the question away, noting that newsmen must read as well as write and therefore should know that 1 October was the tenth anniversary of the "winning of power by the American...", caught himself, and with another long aside to rationalize this slip, finished, "by the Chinese working class."

**Developing Differences**

Khrushchev's fumbling on this question reflected the gradually increasing difficulties which had been developing in Sino-Soviet relations and which had become more acute during 1958 and 1959. Khrushchev's visit to the land of an ally, which he had made light of, was to prove more difficult than the visit to the United States. The Chinese had made no elaborate arrangements to greet him; no bands played and no cannon roared; no efforts were made to publicize his trip or his every move; and, despite many hours of announced private conversations with Mao Tse-tung and other Chinese leaders, no apparent agreement was reached and no communiqué was issued.

Instead, throughout his stay, the Chinese continued to

assert their own position on ideological questions, refused to follow the Soviet lead on "peaceful coexistence" and Western intentions, and treated the Soviet leader with, at best, cool formality. On his return to the Soviet Union, Khrushchev could claim with some validity that his trip to the United States had been a success, but he drew a mantle of silence over his apparent failure in Peiping.

Khrushchev's experiences in Peiping apparently convinced him that Mao and China's leaders were not going to meet Soviet policies more than half way. In his speech there, he had warned the Chinese Communists against "testing the stability of the capitalist system by force" and, on departing, said pointedly, "We Communists of the Soviet Union consider it our sacred duty" to end the cold war.

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A decision apparently was made to inform bloc audiences that Moscow disapproved of Peiping's attitude and to exhort the Chinese to fall into line. In major speeches on 31 October at the Supreme Soviet in Moscow and on 1 December before the Hungarian party congress, Khrushchev made oblique attacks on some Chinese positions. On at least two occasions Soviet lecturers sharply criticized the Chinese by name, attacking the commune program, Chinese behavior in the Sino-Indian border dispute, and the "cold and incorrect reception" given Khrushchev in Peiping.

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In the address on 31 October, Khrushchev defended his policy of detente by stressing the Leninist thesis of flexibility and, in what appeared to be a clear reference to the Chinese leadership, attacked the heretical Trotskyist concept of "neither peace nor war." On 1 December, Khrushchev noted that imperialists were striving to disrupt bloc unity, and he called on all Communist countries to "synchronize our watches." "If the leadership of this or that country becomes conceited," he warned, "this can only play into the hands of the enemy." The Chinese used the anniversary of Stalin's birth on 21 December to counter with praise for Stalin's uncompromising enmity to imperialism and his "relentless struggle for peace."

Until Khrushchev accepted President Eisenhower's invitation to visit the United States, and thus set into motion the latest stage of his policy of detente, Chinese Communist foreign policy showed little variance from that of the Soviet Union. To force Western participation in a summit meeting on Soviet terms, Moscow had developed an atmosphere of pressure and threats during 1958 and early 1959. Charges of alleged flights by nuclear-armed American bombers toward Soviet frontiers were followed by the attempt to discredit US policy toward the revolutionary Iraqi regime and the subsequent landing of American forces in Lebanon.

Moscow gave vigorous support to the Chinese Communists in their offensive in the Taiwan Strait in September and October 1958. This period culminated in the precipitation of a new Berlin crisis in November. Khrushchev apparently regarded his actions as tactical maneuvers designed to attain a limited end--top-level talks on his own terms.

**Foreign Policy Aims**

Khrushchev's immediate foreign policy objectives remain Western acceptance of the status quo in Eastern Europe, recognition of the East German regime, and the freezing of the partition of Germany. While retaining in the background the threat of unilateral Soviet action to sign a separate peace treaty with East Germany, Khrushchev now is concentrating on drawing the West into protracted negotiations which, in his view, will enable the USSR to exploit what Moscow believes is a major shift in the balance of power in favor of the Soviet bloc.

The Chinese Communists had no difficulty with Khrushchev's foreign policy during the period when it depended on harsh denunciations of the United States and combined threat and bluster with propaganda blasts, but Peiping strongly opposed Khrushchev's shift to a conciliatory posture which followed President Eisenhower's proposal for an exchange of visits.

The Chinese are not interested in attaining a status quo arrangement with the United States, because the existing cold-war boundaries in the Far East--particularly in the Taiwan Strait--are not acceptable to them. The Chinese leaders, apparently convinced that the United States will not change its policy of nonrecognition of their regime and support for Taipei, intend to maintain their hostility toward the US while they press on toward their goals of international recognition of their regime, admission to the UN, and an eventual takeover of Taiwan by "whatever means necessary."

To maintain an atmosphere in which talks with Western leaders are assured, and in hopes of playing these leaders off against each other, Moscow finds it desirable to subordinate

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some longer term objectives to more immediate tactics. Thus Khrushchev considered it more important to give qualified support to De Gaulle's Algerian proposals than all-out support to the Algerian provisional government, thereby forcing the French Communist party into a sudden shift in its position. The Chinese, whose policies are in the main concerned with Asia and who see little gain in talks from which they are excluded, condemned De Gaulle's proposals as a sop.

Underlying Factors

The Sino-Soviet divergences on foreign policy tactics reflect different interests and aims which flow, in turn, from certain ideological and political differences and from the difference in phase and pace of the economic and social development in the two countries. The Soviet Union is in a phase of economic development which makes it possible to assure its people that they can enrich their personal lives without a constant fear of war or threat of attack. The Soviet Union, with a highly industrialized economy and full international recognition, can now afford the luxury of easing internal pressures and can take a more pragmatic approach to foreign policy problems.

The Chinese Communists, on the other hand, with an agrarian country and an embryonic industry, rely heavily on doctrinal extremism and a tense internal atmosphere in their headlong drive for economic development and social transformation. While probably as unwilling as the Soviet Union to provoke a major war, Chinese leaders feel the need for an atmosphere of "struggle" to force their people to the efforts necessary to achieve the goals of the "great leap." While Khrushchev sees clear advantages in a relaxation of East-West tensions, Mao feels an urgent need to maintain an actively hostile attitude toward the

non-Communist world, the United States in particular.

The Chinese apparently feel that the world balance has already shifted so drastically in favor of the bloc that Moscow's present tactics are unnecessary and that constant pressure on the West will force concessions. They certainly believe that political power and control grow out of military power--as Mao put it long ago, "Political power grows out of the barrel of a gun; anything can grow out of the barrel of a gun."

The Chinese may feel that the Soviet Union is misjudging the world situation now, just as Stalin misjudged the situation in China during the 1940s when Mao, by disregarding Stalin's advice to bide his time and seek a period of "peaceful coexistence" with Chiang Kai-shek, led his Communist forces to victory.

Present Positions

Out of these differences has grown China's disagreement with Khrushchev's detente policies. In the past few months its strictures against the West have become, if anything, more violent. Even while proclaiming the undying unity of the bloc on the occasion of the tenth anniversary of the Sino-Soviet Treaty of Peace and Friendship on 14 February, Peiping spokesmen reiterated that President Eisenhower merely wears "the mask of an envoy of peace," whereas Pravda was developing a mildly favorable impression of the President.

China's position was presented in capsule form on 4 February by politburo member Kang Sheng, its representative to the Warsaw Pact Political Consultative Committee meeting in Moscow. The declaration issued after the meeting set forth Khrushchev's current foreign policy tactics, mixing threats of signing a separate peace treaty with East Germany with

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blandishments designed to demonstrate the Communist world's determination to facilitate the coming talks.

Except for the unyielding position on Germany and some innocuous generalities concerning peace and bloc unity, Kang Sheng could find nothing that pleased him in the declaration. While it welcomed the improvement in Soviet-American relations and expressed the hope that President Eisenhower's visit to Russia would mark a further improvement and provide "an important guarantee of the inviolability of peace throughout the world," Kang Sheng flatly stated, "The actions of the United States fully prove that its imperialist nature cannot be changed."

While the declaration saw an increasing possibility of a disarmament agreement, Kang Sheng asserted, "The United States' moves prove that it will not give up the policy of the arms race," and noted that Peiping would not be bound by any international agreement to which it was not a party. Where the declaration hailed Moscow's unilateral reduction of troop strength and called on other nations to follow suit, Kang Sheng noted that China cannot now afford to reduce its military power.

**China's Disputes**

The Chinese, through their aggressive pursuit of their country's national interests in its disputes with India and Indonesia, have demonstrated they are not willing to subordinate these interests to the Soviet Union's foreign policy. When, in the course of Chinese Communist suppression of the Tibetan revolt, India decided to pay more attention to its lengthy frontiers with China, China reacted sharply and immediately to maintain the positions in this area that it had been gradually developing over many years with

no previous opposition from India. Khrushchev, however, unwilling to jeopardize either Moscow's relations with New Delhi or his renewed policy of detente, took the unprecedented step of remaining neutral in a dispute between a Communist and non-Communist nation.

In sharp contrast to Soviet support of Chinese aggressive action in the Taiwan Strait in 1958, when such support accorded with Soviet tactics, Khrushchev refuses to back China in the dispute with India. On 31 October he said, "We should be glad if the incidents on the Sino-Indian frontier were not repeated." In an arranged press interview, a Soviet newsman told correspondents in Geneva that Chinese action on the border dispute would have been foolish at any time, but was particularly foolish at this time. Through these means and through his widely publicized visit to India, Khrushchev has, in effect, placed himself on the Indian side while posing as a disinterested party attempting to bring the warring sides together for talks.

In Indonesia, the Chinese reacted to Djakarta's discrimination against Overseas Chinese without regard for worldwide Soviet policy and the place of Indonesia in it. Khrushchev's anxiety over this aspect of Chinese behavior is similar to his concern over Peiping's policy toward India. The Soviet Union has remained carefully neutral in the argument. During his visit to Indonesia last month Khrushchev sought to counter the effects of Chinese actions and to dissuade the Indonesians from abandoning their independent foreign policy, a course which he seemed to assume they were already seriously considering.

In the past few months Communist China has made some moves to resolve its disputes with these countries and with Burma as well. It has done so not because of Soviet pressure

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or influence, but in recognition that its own interests would best be served by entering into negotiations with these countries. In the cases of India and Indonesia, China could claim that its conditions for talks had been met, and that the settlement which has

been reached with Burma merely accords with what Peiping has been offering for years. There will probably be little softening of Sino-Soviet differences in policy toward the United States until the tactics the USSR pursues serve what the Chinese believe to be their own national interests.  25X1

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**IRAQ'S ECONOMY UNDER QASIM**

Twenty months after the revolution that brought Prime Minister Qasim to power, Iraq's economy, long one of the strongest in the Middle East, remains basically sound, principally because of a rapid increase in oil revenues to a record \$242,360,000 in 1959. Qasim's policies, however, have led to severe economic dislocations, especially in agriculture. The virtual abandonment of the development program of former regimes has also made substantial funds available. Thus, although Qasim has been able to maintain or perhaps even raise slightly the public's consumption levels, there are signs of growing discontent with the government's failure to make good on unrealistic economic promises.

Qasim's Economic Inheritance

On the eve of the July 1958 revolution, Iraq had a relatively sound economy based on substantial and generally increasing oil revenues and a modest agricultural export trade. The royal regime was carrying out a development plan aimed at providing a sound

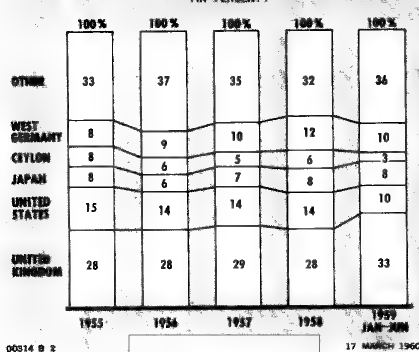
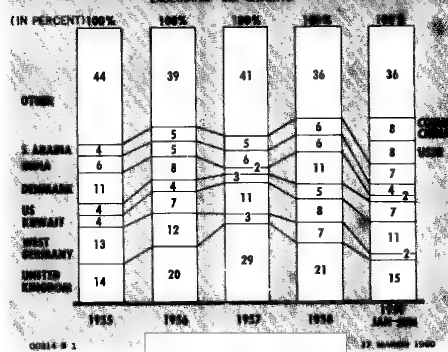
basis for developing the economy rapidly. This program was financed by a statutory 70-percent share of the government's annual oil revenues. About 60 percent of total expenditures were allocated for irrigating and reclaiming land and for building roads and bridges. Industry accounted for less than 7 percent of total expenditures, and projects with an immediate impact for the urban centers received even less.

Thus, with most development activity taking place far from cities and towns and with a poor government public relations program, many Iraqis knew little about the progress of the development program and were easily taken in by charges that the government was siphoning off development funds. Nevertheless, progress was considerable. A lack of technicians, however, plagued the Development Board, and expenditures lagged substantially behind plans. By March 1959, after eight years of operation, development expenditures totaled \$644,000,000, although the board's revenues amounted to \$879,200,000.

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**IRAQ: SOURCE OF IMPORTS**  
(IN PERCENT)**IRAQ: DESTINATION OF EXPORTS**  
(IN PERCENT) EXCLUDING OIL EXPORTSOil

Iraq's Western-run oil industry is still operating normally after an initial period of uncertainty. Although often harassed by the Qasim government since the revolution, the Iraq Petroleum Company now is carrying on its business with little interference. Government officials seem to be keenly aware that disruption of oil production probably would undermine the economy. Thus, despite the confusion in other sectors of the economy, oil production last year rose 14 percent over 1958--reaching a record average of 830,000 barrels a day (b/d). A major expansion program now is well under way, and export capacity is expected to be nearly doubled by the end of 1962. At today's prices, revenues could reach between \$400,600,000 and \$450,000,000 in 1963.

The regime will probably make a serious effort to market some of its own crude oil in 1960. Under the concession terms, the government is entitled to about 116,000 b/d this year. Marketing will be especially difficult, however, because of the present world

oversupply of crude oil, and because of the small chance for marketing a significant quantity of this oil in the Sino-Soviet bloc countries.

Agriculture

The major agricultural difficulties last year resulted from the regime's agrarian reform law of September 1958 and to some extent from inadequate rainfall. Iraq normally exports about 250,000 tons of barley annually. Last year Baghdad halted barley exports, however, because the crop was officially estimated to be 300,000 tons below normal. The wheat crop also suffered heavy losses. Wheat imports averaged about 50,000 tons annually from 1956 to 1958. Last year's imports, however, soared to between 450,000 and 500,000 tons.

The loss of earnings from barley exports and payments for wheat imports probably will cost Iraq about \$55,000,000 in foreign exchange. While some wheat has been imported from Turkey, most of it has come from the USSR. Some of this has already deteriorated, because Iraq is not equipped to store and handle large grain imports.

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Prospects for the 1960 harvest are poor. Early reports suggest that only a little more than 50 percent of the normal acreage has been planted. The lack of planting stems largely from the refusal of landlords to provide their former peasants with seed, tools, or irrigation for land in excess of the 620 acres the landlords legally retain under the Agrarian Reform Program. In an effort to fill the gap created by the landlords' refusal to perform their traditional functions without assurance of receiving a share of the crop, the government granted loans of 110 pounds of seed and \$56 in cash to many peasants. This program was a failure and has been discontinued. Many peasants spent the cash on "frivolous luxuries" and ate or sold the seed.

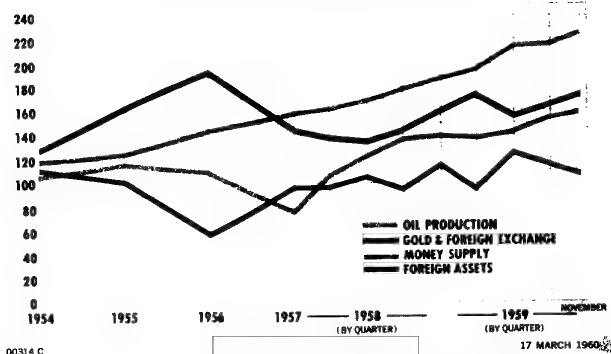
The Agrarian Reform Program has failed dismally, and thus far--of the 4,000,000 acres seized--only about 12,000 acres have been redistributed. This failure was largely the fault of pro-Communist Minister of Agrarian Reform Dr. Ibrahim Kubba, who met strong opposition both inside and outside the government in his efforts to replace the landowners with a Communist-type organization. Kubba has been discharged, however, and anti-Communist Minister of Interior Brigadier Yahya has taken his place.

**Economic Development**

The elimination of most Western technicians and contractors--the backbone of the

previous projects--has virtually stopped new development work. Many Western technicians were initially replaced by Soviet and other Communist bloc personnel, and now these groups have been reduced. As a result, economic activity has declined, unemployment has increased, and workers on development projects near-

**IRAQ: ECONOMIC INDICATORS**  
(1953 = 100)



ing completion face unemployment.

Qasim, in an effort to allay growing disillusionment with the regime's lack of accomplishment in the economic field, has announced a massive \$1.12 billion four-year development program for 1960 through 1963. This plan, however, is largely a figment of his imagination. Government officials of all political persuasions involved in its implementation openly discredit it, and senior officials consider it at least 50 percent propaganda. This year, for example, the plan calls for spending about \$403,200,000, but expenditures probably could not exceed \$140,000,000.

The regime has publicized its welfare promises to provide better housing, to eliminate illiteracy, and to furnish medical care and other social

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**SECRET****CURRENT INTELLIGENCE WEEKLY SUMMARY****17 March 1960****STATUS OF PROJECTS AND STUDIES LISTED IN ANNEX I OF THE SOVIET-IRAQI  
AGREEMENT OF MARCH 1959**

<b>PROJECT</b>	<b>WORK SCHEDULE</b>	<b>STATUS</b>
1. Steel mill	Planning, 1960-62 Delivery of materials, 1961-63	Soviet specialists have started planning work. Mill to be built near Baghdad.
2. Fertilizer plant	Research, 1959-60 Planning, 1960-62 Delivery of materials, 1962-64	Survey underway.
3. Sulfur plant	Research, 1959-60 Planning, 1960-62 Delivery of materials, 1962-64	Plant to be built at Diba near Kirkuk. Survey underway.
4. Pharmaceutical factory	Planning, 1959-60 Delivery of materials, 1960-61	Plant to be built at Samarra. Survey underway.
5. Agricultural machinery plant	Research, 1959-60 Planning, 1960-61 Delivery of materials, 1961-62	No information.
6. Electrical equipment factory	Research, 1959-60 Planning, 1960-62 Delivery of materials, 1961-62	No information.
7. Electric light bulb factory	Research, 1959-60 Planning, 1960-62 Delivery of materials, 1961-62	Survey probably underway.
8. Broadcasting station (4 transmitters)	Research and planning, 1959-60	Installation completed.
9. Glassware factory	Research and planning, 1959-60 Delivery of materials, 1961-62	Survey probably underway.
10. Cotton textile mill <u>a/</u>	Research, 1959 Planning, 1960-61 Delivery of materials, 1961-62	
11. Woolen textile mill <u>a/</u>	Research and planning, 1959-60 Delivery of materials, 1961-62	
12. Tricot knitting factory <u>a/</u>	Research and planning, 1959-60 Delivery of materials, 1960-61	
13. Garment factory <u>a/</u>	Research and planning, 1959-60 Delivery of materials, 1961	
14. Geological survey	To be agreed on	Survey underway.
15. Center for repair of geological equipment and a laboratory for exploratory work	To be agreed on	No information.
16. Two 12,000-ton silos	Research and planning, 1959-60 Delivery of materials, 1960-61	Project designing has begun. Cost of project to be \$1.5 million.
17. Canning factory	Research and planning, 1959-60 Delivery of materials, 1960-61	To be built at Karbala. Survey to start shortly.
18. Technical aid for the establishment of 5 government farms (sugar beets, rice, cotton, grains, and medicinal herbs)	Research and planning, 1959-60	Reports submitted on beets, cereal grains, cotton, and rice farms.
19. Technical aid for 4 tractor stations	1959-60	100 tractors and other equipment for use on farms have been purchased from USSR. One station to be set up in Abu Ghurayb area.
20. Drainage project in southern Iraq	Research and planning, 1959-65	No information.
21. Tigris River basin survey	Research and planning, 1959-63	Survey underway.
22. Exploitation of Euphrates River basin	Research and planning, 1959-63	Survey underway.
23. Improvement of river navigation on Tigris and Euphrates and on Shatt-al-Arab	Research and planning, 1959-60	Team of experts have submitted report on project.
24. Baghdad-Basra railroad (improvement of existing narrow-gauge line and construction of a standard-gauge line)	Research and planning, 1959-62 Delivery of materials, 1959-60	Soviet experts have arrived to begin survey work.
25. Kirkuk - As Sulaymaniyah railroad	Research and planning, 1960-62 Delivery of materials, 1960	Soviet experts have arrived to begin survey work.

a. No specific information is available on projects 10, 11, 12, and 13, although there has been mention in press reports of the presence of Soviet experts in Iraq in connection with the establishment of textile mills and garment factories.

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betterments. Such promises, however, far exceed the regime's ability to deliver, and public disillusionment is certain to develop in coming months.

Largely as a result of the regime's recent recognition that the country's standard of living cannot be raised without foreign assistance, the government's attitudes toward Western contractors and businessmen have gradually changed. There has been a re-evaluation, in both the private and public sector, of the role of the Communist bloc and especially of the Soviet Union. Awareness is growing that the bloc's role will necessarily be secondary and that Iraq must look to the West for much of its economic development.

Unlike most underdeveloped countries, Iraq has sufficient revenues to finance an ambitious development program, and Soviet-bloc, barter-type credits are not especially attractive. Much of the economic activity directed toward the Communist world in recent months reflects a reaction to "Western imperialists," the effects of rampant nationalism, and a rejection of all those connected with the hated Nuri regimes. Many of the trade agreements with the bloc in past months were made in an effort to sell the country's date crop. Qasim has been propagandizing this accomplishment heavily, for more than 30 percent of Iraqi farmers depend on dates for some of their income. Basically, however, there are not economic pressures for increasing trade with the Communist bloc.

**Bloc Economic Aid**

The Soviet Union is implementing its \$137,500,000 line

of credit in accordance with the general terms of the aid agreement. Under the agreement, the USSR is committed during 1959-60 to complete research and planning on the first 25 projects listed under the agreement. Most of the 300 Soviet technicians in Iraq are doing survey work. Research and planning have begun on about 18 of these 25 projects.

Construction work on most of the projects, however, has not begun, and for the most part the delivery of materials is not scheduled before 1961. On some projects, construction is not scheduled to begin until 1962 or later. Because the Soviet aid agreement has programmed most projects over a number of years, Iraq cannot expect for some time to get tangible benefits from the Soviet credit.

Under the terms of the agreement, the USSR is to provide technical assistance for another 18 projects, to be financed outside the \$137,500,000 credit. The Soviet Union is to be reimbursed for this assistance--as under the credit itself--with Iraqi exports or with convertible currency. Thus far contracts have been concluded for about half of these projects, including a shipyard at Basra, improvement of radio and broadcasting facilities throughout the country, and some hydroelectric power and irrigation projects involving the Tigris and Euphrates river system.

**Prospects**

Iraq's long-term economic prospects remain the brightest of any Middle Eastern country, but difficulties are likely to plague the Qasim regime in coming months.

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Despite increasing oil revenues and the Soviet aid program, economic conditions are not likely to improve markedly over the next several months. Most Soviet-sponsored development projects will not yield benefits for at least two years. Even if the present trend of improved relations with Western contractors continues and leads to a substantial renewal of Western development activities, the benefits of any projects would be slow in having their effect.

Qasim has raised Iraqi anticipation of short-run economic improvements unrealistically high, and widespread disillusionment will necessarily set in. There are already reports that the revolutionary regime's

economic "achievements" are being compared unfavorably with the former royal government.

Widespread dissatisfaction could upset Qasim's policy of carefully balancing pro- and anti-Communist factions within the country. Economic dislocation and unemployment are likely to be exploited by antiregime elements--Communists and nationalists--to stir up trouble among the urban masses, landowners and peasants, tribesmen, and the volatile politically conscious white-collar intelligentsia. This dissension, accompanying present disgruntlement in army officer circles, could provide the atmosphere suitable for a coup against the Qasim regime.

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**BRITAIN'S POLICY IN THE ARABIAN PENINSULA**

Disturbed by the growth of nationalist and anti-imperialist sentiment in the Arab world, Britain is seeking new relationships with the littoral states of the Arabian peninsula in the hope of maintaining its influence there and ensuring continued access to Middle East oil. A policy of disengagement both from inter-Arab quarrels and from close alignment with particular states was decided on last summer. The British are rapidly relinquishing various prerogatives in the key state of Kuwait--the source of about 42 percent of their crude-oil imports in 1959 but have concurrently achieved closer cooperation, particularly in military matters. They are prepared to make modifications in treaties with other principalities as local conditions permit.

Rationale for Policy

London's purpose originally in assuming responsibility for the defense and foreign affairs of these states was to secure its routes to India and the Far East. This has become a less important factor, however, and events of recent years have convinced London that its continued access to oil would be helped by some revision of old relationships. While the policy stated as a warning to Khrushchev in early 1956--that Britain would fight to defend Kuwait--remains the official position, London is concentrating on modifying its political ties with these littoral states. The adverse propaganda repercussions occasioned by the Suez crisis in 1956, the campaigns against the Omani rebels, and the sending of British troops to Jordan in

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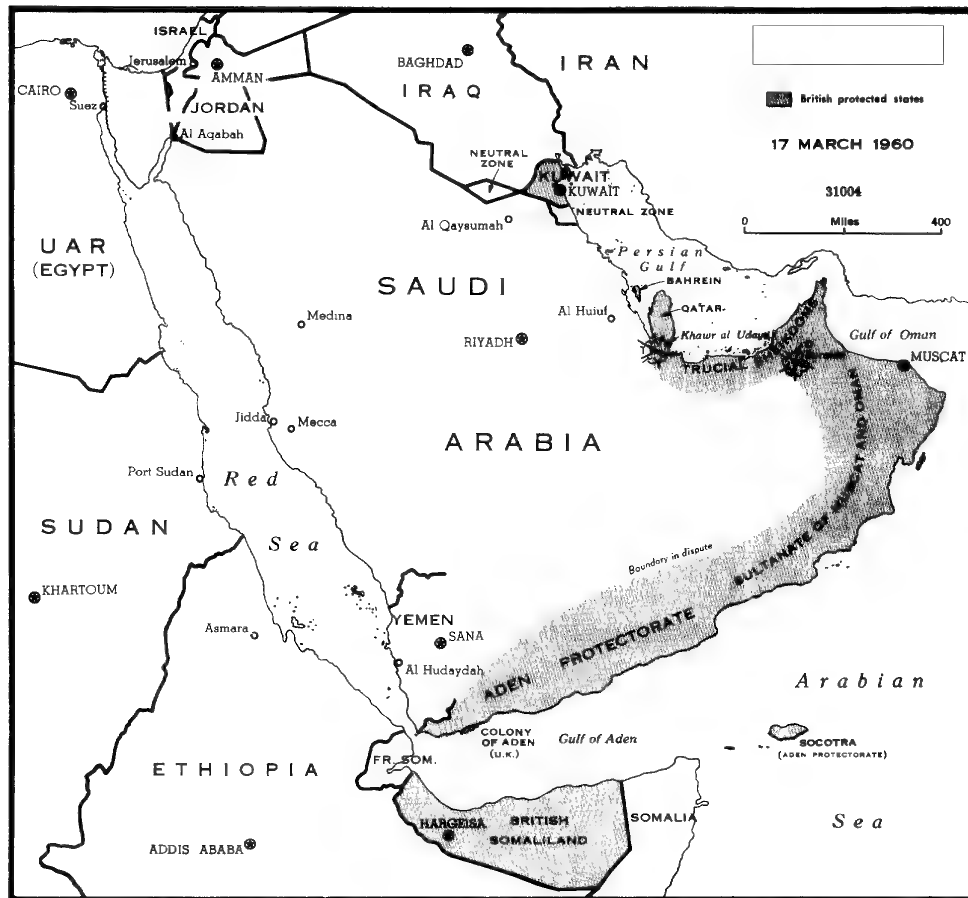
1958 promoted the view that a policy utilizing military force only eroded Britain's position.

London now cites its relations with Iraq and Lebanon as models on which to pattern relations with all Arab states: agreements without "strings" and toleration of nondependence and neutrality. While diminish-

importance of traditional sources east of Suez.

**Improved Military Capability**

As the British withdraw their direct influence in the Middle East, they are simultaneously improving their capability to return and defend their remaining commitments with force



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ing political ties, London is anxious, however, to preserve Western control of the management of the international oil companies, because British oil needs are expected to continue to climb for many years to come. Oil discoveries in Algeria and Libya will reduce somewhat the

if necessary. A new type of aircraft carrier will form part of the "balanced, all-purpose fleet" operating east of Suez to discharge Britain's obligations to SEATO and CENTO and to cope with local disturbances in the Arabian peninsula and East Africa.

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This carrier, operating out of Singapore, has been converted to accommodate a 600-man commando unit and a helicopter group for troop-carrying or antisubmarine roles. It will conduct training exercises with forces in Aden this summer after a familiarization cruise in the Persian Gulf. The capabilities of this fleet have been further enhanced by the recent assignment of a submarine and a coastal minesweeping squadron.

The provision in the 1960-61 defense budget for more transport and cargo aircraft will further increase Britain's ability to "deploy the maximum hitting power at the shortest possible notice" to distant trouble spots. Airfields on the Persian Gulf, in the Aden Protectorate, and in East Africa are being improved. Kenya is being more extensively developed as a regional base for reserve forces, and permanent army facilities outside Nairobi are scheduled for completion in 1961.

**Kuwait**

London is giving up many prerogatives in response to the Ruler's request, and is encouraging Kuwait to exercise more of the incidental attributes of sovereignty in the belief that this is the best means in the long run of keeping Kuwait free of foreign domination.

On 25 February, the British began a progressive elimination of their special legal jurisdiction over all resident foreigners except Arabs, Iranians, and Indonesians. Kuwaiti authority over traffic, labor, port rules, and foreign residence has been established, and London has signified its willingness to cede jurisdiction in other fields as soon as Kuwait

has promulgated the modern legal codes now being drafted.

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Kuwait now has its own postal system and will shortly have its own currency. It is also being encouraged to join international organizations open to territories not fully self-governing and, on these matters, to deal directly with the parties concerned rather than through the British political agent. Despite recommendations from its field officials, London is reluctant, however, to authorize foreign consulates other than the American.

In return, the British have been accorded more cordial cooperation, especially in military matters, than they have received for many years. Kuwait last July purchased 16 tanks and 12 armored cars from the British. The Kuwaitis remain sensitive about any publicity on their military cooperation with Britain, but nevertheless are developing close military liaison. They have sent tank crews for training in Britain, and there are some British training personnel in Kuwait. These arrangements have been negotiated with the heir apparent, Abdulla Mubarrak, whom the British have cultivated.

**Aden-Yemen**

London's relations with Yemen have become relatively cordial after years of dissension and border warfare. The British have managed with some success to reassure Yemen of their good intentions, thus obtaining a period of relative quiet on the frontiers in which to build up the Federation of Arab Emirates of the South in the Western Aden Protectorate. By fostering this grouping of

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petty rulers, London hopes to leave behind a friendly, reasonably viable state if, as it now anticipates, it gives up its sovereignty over Aden Colony in about ten years,

London apparently hopes eventually to capitalize on the improved relations to settle outstanding issues, such as demarcation of the border between Aden and Yemen. It is prepared to extend a small amount of aid to demonstrate its good will toward Yemen.

Problem of Saudi Arabia

Discussions through various intermediaries--at present UN Secretary General Hammarskjold--have brought only slight progress toward the restoration of diplomatic relations with Saudi Arabia and the amelioration of feuds which hamper Britain's relations elsewhere in the peninsula.

Saudi Arabia's reply to Hammarskjold's suggestions for an accommodation with London in effect reiterated its longstanding position that agreement must first be reached on procedures for settlement of the problem of Buraimi, the oasis claimed by both the Saudis and British-protected states but occupied by British-supported forces of Abu Dhabi and Muscat since 1955. London has insisted that Saudi Arabia restore diplomatic relations before discussing Buraimi in view of the complications of the problem

The disputed police post at Khawr-al-Udayd occupied by

Abu Dhabi and claimed also by Qatar provides another obstacle to agreement, with the Saudis insisting that the British force Abu Dhabi to withdraw.

A Foreign Office official said on 19 February that London would try to be flexible but that giving up Buraimi might result in a "crisis of confidence" among British-protected states, particularly Kuwait.

Muscat

The Sultan of Muscat refuses even to discuss negotiating the Buraimi issue and other problems with the Saudis or to strengthen his own authority, and London feels obliged to continue its support of him.

Britain is trying both to intimidate the rebels and improve the capability of the Sultan's forces by periodically sending in small contingents of special British troops for joint exercises. Because of Muscati apathy, Britain's small economic development program in the sultanate is proceeding slowly,

Ultimately, the British may try to negotiate a political settlement with the rebels,

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**BELGIUM'S FUTURE IN THE CONGO**

Brussels' past policies in the Belgian Congo have left both the Belgians and the colony itself ill equipped for the establishment of an independent Congolese state in mid-1960. The recent Belgian-Congolese round-table conference left most problems unresolved, including the new state's political and economic relations with Brussels.

For about half a century Belgian colonial policy was best characterized as "enlightened paternalism." Both the Africans and the European settlers were deprived of all political expression, while great stress was laid on economic development and social welfare. A network of roads, housing, schools, and the improvement of medical services made the Congo seem far ahead of the rest of Africa. Socially, Belgian attention was focused on integrating the Africans into an expanding economy, easing racial segregation, and restricting European immigration to avoid a sizable white-settler problem.

**Political Developments**

The political turning point for the Congo came in 1957. Outside events such as Ghana's independence and French African elections resulted in the emergence of politically conscious Congolese groups with a timetable for complete emancipation. The Congo's most urbanized tribal group called for immediate independence. Political tensions mounted in 1957-58, and serious anti-European disorders occurred in Leopoldville and Elizabethville.

These pressures led the government to introduce popularly elected municipal councils in the European and Afri-

can sectors of the Congolese cities and to admit Africans to the civil service on equal terms with Belgians. Recognizing the need for training future political leaders, moreover, the government established state schools and founded two universities to supplement the Christian missionary schools which had been mainly on the primary and technical level.

Opinion in Brussels was slow in evolving, but by 1958 a high-level study group was appointed to make recommendations for the political future of the Congo. The impact of the All-African People's Conference at Accra in December 1958, however, and the political tensions which culminated in the Leopoldville riots of early January 1959 influenced Brussels to offer eventual independence and to call municipal and territorial council elections for December 1959. There was to be full equality between Belgians and Congolese.

Neither the settlers nor the Congolese were satisfied with the proposals. New Congolese political groups began to demand the immediate establishment of a Congolese government and a constituent assembly. Fearing the December local elections would be boycotted, Belgium offered a definite timetable for independence and the establishment of a semiautonomous national government with two legislative assemblies in 1960. King Baudouin, a popular figure with the Congolese, paid a hurried visit during the December election period in an attempt to decrease the tension.

Nationalist groups, however, demanded independence and called for comprehensive

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round-table talks on the Congo's future. This conference convened at Brussels in late January in a surprisingly amicable atmosphere.

**Economic Ties**

Possessing great mineral wealth, concentrated in the southern and eastern regions called the Katanga, the Congo

supplies some 80 percent of the world's cobalt and 65-70 percent of its industrial diamonds; it accounts for an estimated 4 percent of Belgium's national income.

Large Belgian financial combines hold about three quarters of the capital of all the companies operating in the Congo, an investment estimated

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at \$750,000,000. The Union Miniere du Haut Katanga, the country's principal mining establishment, contributes 42 percent of the Congo's revenue by exploiting such minerals as copper and uranium. Other important enterprises include Forminiere (diamonds), OTRACO (transport), and Lever Brothers (palm products).

While these firms did not actively seek to influence the course of political developments in 1958-59, Union Miniere's director recently indicated his support for a federation that would preserve the economic unity of the Congo but give the Katanga considerable autonomy. This move suggests that the company and other Belgian interests in the Katanga--which are suspected of separatist tendencies--may become increasingly involved in Congo politics in order to preserve their privileged economic position.

In 1959, for the first time, the Belgian Government had to give budgetary support to the Congo, some \$20,000,000. It plans to make annual contributions to the second Development Plan, which calls for about \$1 billion in new investments from both internal and external sources during the ten-year period starting in 1960. The principal goal of the plan is to accelerate the change from a subsistence to a monetary economy, with greater emphasis on the development of farming by Africans. The plan also seeks capital from other Western sources, although little foreign money has thus far been attracted to the Congo because of the Belgian monopoly over investments there.

Brussels has announced plans for the development of the Inga Rapids on the Lower Congo River, where the poten-

tial hydroelectric output is estimated at 25,000,000 kilowatts--the greatest in the world. Development of this huge potential is visualized over a period of 26 years, the first stage providing 1,500,000 kilowatts of power capacity within four years at a total cost of \$316,000,000.

**The Round-Table Conference**

The Brussels conference had to take account of considerable separatist sentiment in Leopoldville and the mineral-rich Katanga Province. It was decided that the Congo's mines would be controlled by the central government, although the provinces would have extensive rights in the granting of concessions. General agreement was reached on the structure of the unitary Congo state, which on 30 June is to assume responsibility for foreign affairs and defense as well as national policy, currency, customs, transportation, and communications.

The Belgians succeeded in maintaining amicable relations with the Congolese at the conference by granting concessions on most points, even where there is a good likelihood of serious difficulty in implementing the round-table decisions. Several major problems, moreover, were left entirely unresolved: for example, the future of the Europeans in the new Congolese state, and the political ties between Belgium and the Congo. It is not clear yet whether the King of Belgium, who has been the traditional link between the Congo and Brussels, will have any role.

Agreement is still to be reached also on the disposition of Belgium's investments in Congo companies, and on the status of the army-air bases at Kamina and Kitona and the

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naval base at Banana. While it has been agreed that the Congolese constitution will guarantee the right of persons and properties, whether nationals, Belgians, or foreigners, there is much concern among the Belgians as to the ability of the Congolese government to assure these rights. Congolese leaders, who are aware of their dependence on Belgian forces to maintain internal security, are expected to welcome continuation of this service to the Congo state.

**Outlook**

Solutions to these problems will be complicated as the long-standing feuds between the Congolese tribes and the rivalries of the numerous political aspirants become aggravated. Other difficulties include the paucity of trained Congolese administrators to replace the 10,000 or more Belgians in the civil service, the disparity in the distribution of the Congo's wealth, and the strong separatist sentiment in the rich Katanga Province. There will also probably be a sharp increase in external influences ranging from international Communism to the pan-African movement.

Congolese candidates for legislative office have recently sought financial assistance from both Communist and non-Communist sources abroad. The resulting conflicts will present a constant threat to order and a temptation to the Belgians to intervene, despite their contention that responsibility for successful political advances rests on the Congolese themselves.

Still another unresolved problem is to assure the flow of new investment capital required for the Congo's economic development. The Congolese want to retain Belgium's economic "presence" since they recognize the importance of its technical assistance and the commercial and investment advantages available through Belgium's membership in the European Common Market. It is far less clear whether Belgian financial interests have sufficient confidence in the new order to go through with the investment program envisaged in the ten-year Development Plan. Further light will be shed on this question by the joint economic conference which is to be held in Brussels in mid-April.

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